

## Message Text

CONFIDENTIAL

PAGE 01 VIENNA 01036 061735Z

46

ACTION EB-11

INFO OCT-01 EUR-25 NEA-11 ISO-00 FEA-02 INT-08 CIAE-00

DODE-00 PM-07 H-03 INR-10 L-03 NSAE-00 NSC-10 PA-04

RSC-01 PRS-01 SPC-03 SS-20 USIA-15 SAM-01 SCI-06

COME-00 TRSE-00 STR-08 CIEP-02 OMB-01 EA-11 DRC-01

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P R 061608Z FEB 74

FM AMEMBASSY VIENNA

TO SECSTATE WASHDC PRIORITY 1508

INFO USMISSION OECD PARIS

AMEMBASSY JIDDA

C O N F I D E N T I A L VIENNA 1036

STATE ALSO FOR T/IEP

E.O. 11652: GDS

TAGS: ENRG, OPEC, AU

SUBJECT: ENERGY: OPEC PRICING POLICY

REF: A) VIENNA A-57; B) VIENNA 795 (NOTAL); C) VIENNA 961 (NOTAL)

SUMMARY: WESTERN EMBASSY SOURCE IN VIENNA HAS GIVEN EMBOFF AN ACCOUNT OF RECENT CONVERSATION WITH OPEC OFFICIAL ON DELIBERATIONS WITHIN OPEC ON PRICING POLICY. OPEC OFFICIAL EXPECTS THAT OPEC CONFERENCE WILL DECIDE ON FURTHER PRICE INCREASES TO TAKE EFFECT APRIL 1, BUT HE BELIEVES THESE INCREASES WILL BE QUITE MODERATE. SAUDIS EMERGE FROM THIS ACCOUNT AS COUNSELING MODERATION WITHIN OPEC ON FUTURE PRICING. END SUMMARY.

1. RESPONSIBLE OFFICER IN WESTERN EUROPEAN EMBASSY FOLLOWING OPEC DEVELOPMENTS HAS GIVEN EMBASSY OFFICER A RUNDOWN ON RECENT CONVERSATION HE HAD WITH OPEC  
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PAGE 02 VIENNA 01036 061735Z

OFFICIAL CONCERNING PRICING DELIBERATIONS WITHIN

ECONOMIC COMMISSION OF OPEC. OPEC OFFICIAL WAS CYRUS SAMII, IRANIAN, HEAD OF TECHNICAL DEPARTMENT, WHO ALSO ACTS AS SECRETARY GENERAL KHENE'S DEPUTY. SOURCE EMPHASIZED THAT SAMII SPOKE TO HIM IN STRICT CONFIDENCE AND THAT HIS REMARKS SHOULD BE CLOSELY HELD.

2. FOLLOWING IS SUMMARY OF SAMII'S COMMENTS AS RELATED BY SOURCE. RECENT MEETING OF ECONOMIC COMMISSION OF OPEC ADJOURNED WITHOUT MAKING FINAL RECOMMENDATIONS ON PRICING. COMMISSION WILL MEET AGAIN IN MID-MARCH TO PREPARE RECOMMENDATIONS FOR MEETING OF OPEC CONFERENCE DUE TO TAKE PLACE SHORTLY BEFORE APRIL 1. BETWEEN NOW AND MID-MARCH MEETING COMMISSION WILL BE MONITORING TWO PARTICULAR ASPECTS: PRICES OPEC COUNTRIES GET AT AUCTION FOR "FREE OIL" AND PRICES OF PETROCHEMICALS IN INDUSTRIALIZED COUNTRIES. THESE TWO FACTORS WILL HAVE STRONG INFLUENCE ON COMMISSION'S RECOMMENDATIONS TO CONFERENCE.

3. INDICATIONS ARE, ACCORDING TO SAMII, THAT COMMISSION WILL RECOMMEND AND CONFERENCE WILL APPROVE SOME INCREASES IN POSTED PRICES TO TAKE EFFECT FROM APRIL 1. NO PERCENTAGE FIGURES WERE INDICATED BUT SAMII EXPECTS INCREASES TO BE ON VERY MODERATE SCALE. (SAMII GAVE NO INDICATION THAT ANY REDUCTIONS IN PRICES WOULD BE RECOMMENDED.)

4. WITH REGARD TO LONGER TERM, COMMISSION ACCEPTS SHAH'S CRITERION THAT OIL PRICES SHOULD REFLECT PRICES OF ALTERNATE SOURCES OF ENERGY -- NUCLEAR, GAS AND OIL FROM COAL, ETC. HOWEVER, SINCE ALTERNATE SOURCES IN MANY CASES NOW INVOLVE EXTREMELY EXPENSIVE PROCESSES, COMMISSION DOES NOT BELIEVE SHAH'S CRITERION CAN BE USED AS REALISTIC BASIS FOR THE NEXT 5-8 YEARS. UNTIL THEN, COMMISSION'S PRICING STUDIES WILL BE BASED ON MORE TRADITIONAL FACTORS. SPECIFICALLY, THE FOLLOWING THREE CRITERIA WILL BE EMPLOYED:

A. DEFICITS AND SURPLUSES OF CONSUMING AND PRODUCING COUNTRIES RESPECTIVELY. IN THIS CONNECTION, CONFIDENTIAL

CONFIDENTIAL

PAGE 03 VIENNA 01036 061735Z

SAUDIS HAVE BEEN ARGUING WITHIN COMMISSION THAT EXCESSIVELY HIGH PRICES FOR OIL WOULD CAUSE TOO GREAT A GAP BETWEEN DEFICITS OF CONSUMING COUNTRIES AND CORRESPONDING SURPLUSES OF OPEC STATES. SAUDIS HAVE COUNSELED THAT TO KEEP THIS GAP WITHIN BOUNDS, OPEC PRICES SHOULD BE SET AT MODERATE LEVELS. HOWEVER, OTHER OPEC STATES (OUR SOURCE SAID SAMII INDICATED THAT THIS MEANS ALL OTHER OPEC STATES INVOLVED IN COMMISSION DELIBERATIONS) HAVE

COUNTERED THIS SAUDI PLEA FOR MODERATION, ARGUING THAT PROJECTED INCREASES IN OIL BILLS OF CONSUMING COUNTRIES BASED ON RECENT PROJECTIONS OF INCREASED CONSUMPTION IN COMING YEARS ARE UNREALISTIC. REASON IS THAT WITH HIGHER PRICES OPEC CAN EXPECT REDUCED CONSUMPTION OR AT LEAST REDUCTION IN RATE OF INCREASE OF CONSUMPTION IN FUTURE YEARS. MOREOVER, THE OTHER OPEC STATES (I.E., EXCEPT SAUDIS), ARE ARGUING ONE OF AIMS OF PRICE INCREASES IS PRECISELY TO REDUCE CONSUMPTION OF OIL SO THAT PRODUCING COUNTRIES' RESERVES WILL LAST LONGER. THUS, THEY MAINTAIN THAT THE EXTREME DEFICITS FEARED BY SAUDIS WILL NOT DEVELOP AND THAT SAUDI FEARS ON THIS ARE EXAGGERATED.

B. SECOND CRITERION WILL BE OIL COST COMPONENT OF PRICES OF INDUSTRIAL PRODUCTS WHICH OPEC COUNTRIES WILL BE BUYING FROM CONSUMING COUNTRIES. THE AVOWED AIM OF

COMMISSION STUDIES WILL BE TO DEMONSTRATE THAT COSTS OF OIL DO NOT CONSTITUTE A HIGH ELEMENT IN THE COSTS OF INDUSTRIAL PRODUCTS, OR AT LEAST NOT AS HIGH AS CONSUMER COUNTRIES ARE EXPECTED TO CLAIM. OPEC COUNTRIES THUS HOPE TO WEAKEN JUSTIFICATION FOR BIG PRICE INCREASES FOR INDUSTRIAL PRODUCTS WHICH OPEC MEMBERS MUST BUY. ASSUMPTION IS THAT THE MORE SOPHISTICATED THE PRODUCT THE LESS THE INCIDENCE OF OIL COSTS ON TOTAL COSTS OF PRODUCT IN QUESTION.

C. THIRD CRITERION WILL BE INFLATION AND ITS IMPACT ON PRICES OF OIL AND INDUSTRIAL GOODS.

5. SOURCE HAD IMPRESSION THAT SAUDI MODERATION IN OPEC COUNCILS IS DUE TO U.S. INFLUENCE ON SAUDI GOVERNMENT. CONFIDENTIAL

CONFIDENTIAL

PAGE 04 VIENNA 01036 061735Z

6. COMMENT: THE OPEC SECRETARIAT IS OBVIOUSLY FOLLOWING A POLICY OF MAINTAINING STRICT SECRECY ON ITS CURRENT DELIBERATIONS. NEVERTHELESS, THE PICTURE EMERGING FROM VARIOUS BITS OF INFORMATION AND PRESS REPORTS IS A DEFENSIVE POLICY IN ORDER TO BUTTRESS OPEC'S POSITION AGAINST THE INEVITABLE COST-PUSH ARGUMENTS BEING PUT FORWARD BY INDUSTRIAL COUNTRIES AND THE MULTINATIONAL OIL COMPANIES. FURTHERMORE, EXCEPT FOR SAUDI ARABIA, OTHER MEMBERS APPARENTLY ARE ASSUMING A HIGH DEGREE OF PRICE ELASTICITY FOR CRUDE OIL, I.E., THAT CRUDE CONSUMPTION WILL DECLINE AS CRUDE PRICES INCREASE. WE SEE NO PRESENT INDICATIONS FROM HERE THAT THE OPEC CONFERENCE IS READY TO CONFRONT CONSUMERS IN A DIALOGUE, BUT OUR

GUESS IS THAT SOONER OR LATER THE CONFERENCE MAY  
DECIDE THAT THEY MUST INITIATE FORMAL CONTACTS WITH  
EXPERTS FROM LEADING CONSUMER COUNTRIES, IF FOR NO  
OTHER REASON THAN TO OBTAIN ECONOMIC DATA THAT THEY  
MAY FIND DIFFICULT TO DEVELOP THEMSELVES.

7. DEPARTMENT REPEAT AS DESIRED.HUMES

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## Message Attributes

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